
I. INTRODUCTION

1.0 Introduction

In March 2002, Mayor, Anthony A. Williams, issued an Executive Order to establish a task force to study how the District of Columbia Government develops; strengthens; advances; and retains local, small, and disadvantaged businesses (LSDBEs). The study was initiated in recognition of the need to do more to advance, develop, and support LSDBEs in the District of Columbia.

In 2000, according to Bureau of the Census (Census), 93.6 percent of the 26,157 employer-based businesses in the District of Columbia were classified as small businesses (i.e., businesses with 500 employees or less). Despite legislation requiring District agencies to spend 50 percent of their expendable budget with LSDBEs, it is a widely held perception among many stakeholders across the City that District agencies are not fully utilizing these enterprises. The Mayor created the Task Force to not only determine the legitimacy of such perceptions, but also to help the City identify strategies, processes, practices, and systems to better leverage the universe of LSDBEs in the District of Columbia.

Given the importance of small business to the economic base of the District and its renaissance in real estate and neighborhood development, it is essential that policy-makers as well as line government employees better understand the value of LSDBE contributions to the Mayor's goals and objectives, as well as the contributions that LSDBEs make to the District's operations, the City's tax-base, its neighborhoods, and its overall economy.

The Task Force was composed of thirteen official members and 3 ex-officio members. To ensure that all perspectives were taken into consideration, the Mayor selected Task Force members from the following communities:

- ◆ The LSDBE community, including a LSDBE banking institution.
- ◆ Trade associations representing the interests of LSDBEs.
- ◆ Small business technical assistance programs.
- ◆ Local business activists.
- ◆ Local government officials (current and prior).
- ◆ The Local Business Opportunity Commission, which is responsible for certifying companies in the District as LSDBEs.
- ◆ Private sector contractors.

Not only were Task Force members selected for their affiliation with various constituencies, but also for their knowledge of:

- ◆ The universe of LSDBEs in the community.
- ◆ LSDBE program goals and authorizing legislation.
- ◆ Private and public services, programs, and service providers that support LSDBEs.
- ◆ The District’s Office of Local Business Development.
- ◆ The District’s Office of Contracts and Procurement.
- ◆ The business development opportunities available to local, small and disadvantaged businesses.
- ◆ Affirmative Action laws.

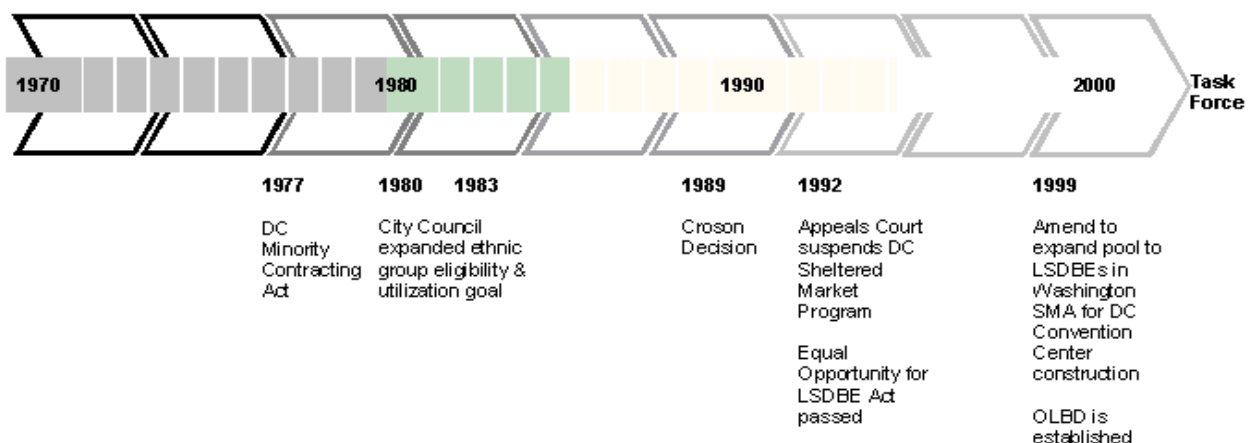
This report presents the Task Force’s assessment of the current status of programs to support LSDBEs in the District of Columbia. It offers recommendations to strengthen those programs based on feedback from stakeholders; best practices; and the analysis of information about utilization, processes, systems, roles and responsibilities, and legislation.

1.1 Legal Evolution of the Program

Since 1977, the District of Columbia has formally recognized the need to support LSDBEs. The end result is a program designed to support, grow, and use local, small, and disadvantaged businesses while integrating them into the District’s procurement process and the expenditure of public funds. Exhibit 1.1 illustrates the sequence of legislative and legal events that have influenced LSDBE-related policy in the District of Columbia.

Exhibit 1.1

Evolution of Legislative and Legal Events That Have Influenced LSDBE Policy



In March of 1977, the District of Columbia Council enacted the District of Columbia Minority Contracting Act (DC Law 1-95, 23 DCR 953 2(b)). The Act established the goal of awarding 25 percent of the dollar value of all District contracts for construction and goods and services to local minority-owned business enterprises. In 1980 and 1983, the Council expanded the ethnic group eligibility to participate in the program and increased the utilization goal from 25 percent to 35 percent.

In January 1989, the Supreme Court ruled that race-based business enterprise set-aside programs were unconstitutional. As a result of the “strict scrutiny” standard that a majority of the Supreme Court decided was constitutionally mandated in reviewing such programs – in the Croson decision (City of Richmond v. J.A. Croson Co., 488 U.S. 469 (1989)) the District of Columbia and many states conducted extensive Discrimination Studies. The purpose of these studies was to document the historical under- utilization of minority-owned businesses and to determine if a disparity existed between the availability of minority-owned businesses in the District’s market and their utilization in the District’s contracting activities. The study provided statistical and anecdotal evidence that supported a finding of contracting discrimination against Black and Hispanic businesses in the District of Columbia geographic market area.

The District’s set-aside program came under additional scrutiny in 1992, when the U.S. Court of Appeals suspended the District’s minority contracting set-aside program. The U.S. Court of Appeals found that the District’s:

- ◆ 35 percent goal operated as an inflexible requirement and that there was “no strong basis in evidence” for setting its minority contracting goal at that level
- ◆ Adoption of the Minority Contracting Act was based on “general allegations of discrimination” rather than on relevant and statistical findings of disparity

As a result of the discrimination study and the U.S. Court of Appeals decision, the Council enacted DC Law 12-268 the “Equal Opportunity for Local, Small, and Disadvantaged Business Enterprise Act.” This is the law that guides the existing program to support and promote LSDBEs. Under the law, each agency of the District, among other things, shall:

- ◆ Allocate its construction contracts in such a way to reach a goal of 50 percent of the dollar volume of all construction contracts to small businesses.
- ◆ Allocate its procurement of goods and services, other than construction, in such a way to reach goals of 50 percent of the dollar volume to small business enterprises.
- ◆ Allocate five percent of its contracts to prime contractors who agree to subcontract a portion of the contract work to local or disadvantaged businesses.

DC Law 12-268 also provides for a bid preference mechanism, a separate set-aside program for small business enterprises, a set-aside program for local, small and disadvantaged businesses at the sub-contracting level, and a set-aside program for local, small and disadvantaged businesses for the “Blanket Order Blitz” program.

1.2 The State of Local, Small and Disadvantaged Businesses

Small business is critical to the growth and maintenance of the economy. Small businesses produce half of the gross domestic product and employed half of all employees in the United States. More than 75 percent of new jobs are created by small businesses, and 90 percent of new businesses are categorized by the U.S. Census Bureau as small businesses.

In the District of Columbia, small businesses are represented in a wide range of industries, such as:

- ◆ Professional, Scientific, and Technical Services
- ◆ Real Estate Rental and Leasing
- ◆ Health Care and Social Assistance
- ◆ Arts, Entertainment, and Recreation
- ◆ Transportation and Warehousing
- ◆ Administrative, Support, Waste Management and Remediation Services
- ◆ Retail Trade
- ◆ Information
- ◆ Construction
- ◆ Finance and Insurance
- ◆ Other Services

According to the 1997 Economic Census: Surveys of Minority- and Women-Owned Businesses (the latest data available), minority-owned businesses, defined, as those owned by Blacks, Hispanics, Asian and Pacific Islanders, American Indians and/or Alaskan Natives, represented nearly 34 percent of all businesses in the District. A total of 15,200 minority-owned businesses accounted for \$3.0 billion of business revenues in 1997. Of the total minority-owned businesses, 3,200 of them employed a total 27,428 workers in 1997. Based on 1998 Census data (the latest available) small businesses employed nearly 48 percent of the District's total employment base.

There are challenges negatively impacting the viability of any business concern. They include access to capital, access to markets, misperceptions about capabilities, and the inability to outperform any negative publicity the particular industry may receive. While not unique to small and disadvantaged businesses, these challenges are compounded by the perceptions held of small business. In the District, some small businesses have faced challenges due to the resurgence in commercial and residential real estate development. For example, rising rents on leased space, increased property values and property taxes, changes in customer demographics

and new uses for existing property are all factors that have led to the displacement of some small neighborhood businesses.

Temporary disruptions caused by large-scale real estate development projects throughout the District have placed survivability and growth pressures on some small businesses. Given that many small businesses already operate under capital constraints and have little to no cash flow cushion to weather economic downturns, these seemingly temporary pressures may jeopardize the survival of individual small businesses and may result in a loss of the goods, services, and jobs.

Accessing capital in the District is further exacerbated by the fact that the number of banks have decreased over the past five years. Furthermore, Federal Reserve Board data indicate that few banks can boast strong lending results in the District's small business community and even fewer can boast strong Community Reinvestment Act (CRA) ratings from bank regulators.

Non-bank lenders have been undergoing industry consolidation, leaving fewer non-bank lending sources for the District's small businesses. Also, the SBA-certified micro-lenders (providing financing in increments of less than \$50,000) have not been successful in providing capital to the District's small businesses.

In addition to facing limited sources of traditional bank financing, non-bank and micro-loan financing in the District, many small businesses continue to face a shortage of available equity financing and contract or asset-based receivables financing to support their business' growth. The SBA's Small Business Investment Companies (SBICs) and Specialized Small Business Investment Companies (SSBICs) have fallen short in their mission to provide competitive equity financing to small, entrepreneurial companies.

1.3 Methodology

The Task Force followed a seven-step approach to complete its work:

- ◆ Review legislative intent.
- ◆ Understand the perspectives of key stakeholders.
- ◆ Identify key areas of opportunity.
- ◆ Research best practices in government and private industry.
- ◆ Form recommendations to address the opportunities identified through the research on best practices.
- ◆ Validate findings and recommendations with key stakeholders.
- ◆ Finalize analysis and recommendations.

In the context of examining local, small and disadvantaged business opportunity development in the District, the Task Force believes that it is important to understand the role of the primary District agencies tasked with implementing the program – OLBD and OCP.

To complete its work, the Task Force organized itself into four Subgroups (per the Mayor’s Order) – Advancing, Procurement, Technical Support and Business Assistance, and Compliance and Enforcement. Consistent with the prescribed methodology, each group:

- ◆ Reviewed the statutory framework, executive orders, agency rules, and memoranda of understanding related to its focus area.
- ◆ Analyzed the current state of the District’s LSDBE program and related procurement activities, including utilization of LSDBEs, compliance with governing requirements, and program administration and related processes and systems.
- ◆ Developed a range of hypotheses, based on the research and members’ experience and knowledge of the program and key stakeholder concerns.
- ◆ Identified findings based on available qualitative and quantitative data, such as resulting focus group data, community business forums, individual interviews and statistical data analysis. The Subgroups used this information to test their hypotheses. In analyzing the findings, each group worked to assess 1) the District’s compliance with program requirements and 2) the effectiveness of overall program compliance efforts.
- ◆ Researched and evaluated the best practices of other municipal governments, the Federal Government, and the private sector to identify programs; policies; processes; and structures that would support the District’s LSDBE efforts.
- ◆ Developed recommendations for specific actions to improve the manner in which the District develops, advances, strengthens, and retains local, small, and disadvantaged businesses. The Task Force also identified areas for further study or investigation.

1.4 Organization of the Report

This Report has eight sections. They are:

- ◆ The Executive Summary, which summarizes the essence of the Report.
- ◆ An Introduction, which establishes the base for the rest of the Report.
- ◆ The Current Environment section, which provides a description of current processes, systems, and structure that supports the LSDBE program in the District of Columbia.
- ◆ A section on Findings, which is a presentation of the key findings that impact the effectiveness of the District in advancing, retaining, and utilizing LSDBEs.

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- ◆ A presentation of Best Practices, which presents the structure, processes, programs, and policies in place in other federal, state, municipal and private sector organizations that could be adopted and adapted to increase the effectiveness of the District's LSDBE program.
 - ◆ The Recommendations section, in which the Task Force presents its recommendations to address the challenges and opportunities identified using best practices and feedback from stakeholders.
 - ◆ An Appendix, which contains the four detailed reports of the Subgroup committees.

II. CURRENT ENVIRONMENT

2.0 Introduction

The LSDBE program in the District of Columbia involves a number of entities – OLBD, OCP, LBOC, District agencies, and LSDBEs. In this chapter we provide an overview of the responsibilities and interaction among of the various entities in delivering the LSDBE program. (Exhibit 2.1 provides a high level overview of the process.) The primary player is OLBD.

The LSDBEs’ Certification Program is designed to build the capacity of local, small, and disadvantaged businesses and to stimulate economic development in the District of Columbia. District-based small and disadvantaged businesses are eligible to participate in this set-aside program under DC Law 12-268. Eligibility is determined by such things as primary business office location, average revenues over the past three years, and, in some cases, proven economic disadvantage.

Certified businesses that can demonstrate a capacity to provide goods and services to the District government are provided with procurement matching opportunities through the certified LSDBE contractor database and are eligible for partnerships to assist the District in reaching LSDBE participation goals.

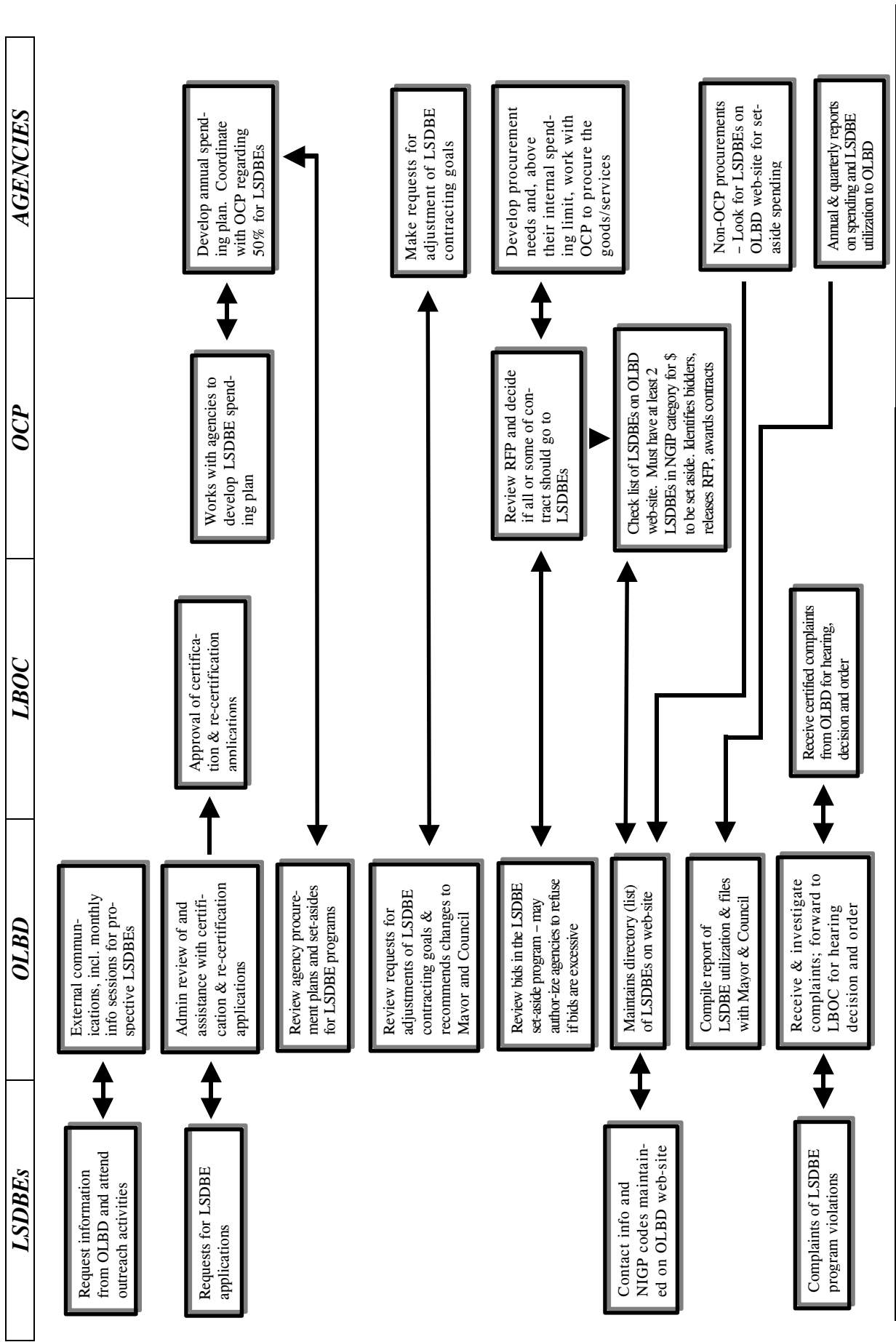
The Local Business Opportunity Commission, whose members are appointed by the Mayor, is “authorized to promulgate, amend, repeal and enforce such regulations, consistent with the provisions of the Equal Opportunity for Local, Small, and Disadvantaged Business Enterprises Act, as may be necessary and appropriate to promote the ethical practice of contracting and subcontracting and to carry out the provisions, intents and purposes of the Act.”

More specifically, the LBOC is charged with establishing procedures and guidelines for the implementation of programs established pursuant to the Act, determining which business enterprises will be eligible for certification, and making various recommendations about specific contracting arrangements and LSDBE participation in District procurement opportunities.

The Office of Local Business Development serves as the administrative arm and liaison for the LBOC. OLBD receives, analyzes, and processes LSDBE certification applications on a continuous basis. LSDBE applications are processed, and summary reports are presented to LBOC for certification review. The LBOC meets monthly to approve LSDBE applications.

The current mandate for OLBD is extremely broad and more extensive than that of other similar offices in municipalities studied by the Task Force as part of its best practices research. A review of DC Code. Sec. 2-1205.3 that sets forth the responsibilities of OLBD indicates that the Office has sufficient and explicitly worded statutory mandate to promote growth and development of LSDBEs.

EXHIBIT 2.1 – LSDBE Current Environment Primary Interrelationships and Interdependencies



2.1 OLBD Legislative Mandate

OLBD has the statutory responsibility for LSDBE program education, certification/re-certification of LSDBEs, enforcement of procurement regulations, and LSDBE program evaluation. And it is responsible for program compliance monitoring, receiving and investigating complaints of violations of the LSDBE Act, and stimulating and fostering greater opportunities for certified LSDBEs. The agency is expected to successfully perform this broad mandate with an annual appropriation of \$1 million and a staff of 10 full-time equivalent employees.

More specifically, the law states that the function of OLBD shall be to:

- ◆ Educate the public, including District residents and businesses, about the LSDBE program;
- ◆ Receive and review applications for certification, in conjunction with the Local Business Opportunity Commission;
- ◆ Stimulate and foster greater opportunities for certified LSDBEs to participate in District procurement for goods and services than would otherwise be possible;
- ◆ Educate, disseminate, and market contract opportunities information; and
- ◆ Enforce procurement regulations for businesses already holding certification.

OLBD also has authority to:

- ◆ Evaluate the LSDBE programs under DC Code. Sec. 2-217.02 (2001).
- ◆ Review the procurement plans of each agency of the District government and determine, if it deems appropriate, which contracts, or parts thereof, shall be reserved for the programs established under DC Code. Sec. 2-217.03. If the agency has failed to meet the goals set forth in DC Code Sec. 2-217.02 (2001), the Office shall reserve portions of the agency's contracts to be performed in accordance with programs established under DC Code Sec. 2-217.03, so that the agency's failings may be timely remedied.
- ◆ Review agency plans and take appropriate action pursuant to DC Code Sec. 2-217.02.
- ◆ Consider an agency request for adjustment of agency LSDBE contracting goals, provides that OLBD report to the Mayor and the Council on a semi-annual basis, and to make recommendations for changes of the goals on an agency basis, if appropriate.
- ◆ Review bids in the small business enterprise set-aside arena and may authorize agencies to refuse to award a contract where OLBD determines that bids for a particular contract are excessive.
- ◆ Review contracting problems and make further recommendations that increase LSDBE contractor participation with District government. Recommendations shall include improved

schedules that ensure prompt payment to contractors, special geographic radius requirements on certain contracts, innovative contract advertising procedures, the encouragement of joint ventures, and advice for the Mayor on methods to be utilized to ensure participation.

- ◆ Receive and investigate complaints of violations of the LSDBE Act and take appropriate enforcement action regarding such complaints; certify a complaint to the Office of the Corporation Counsel for any legal action needed; and forward to the LBOC, for a hearing, decision and order, any complaint that has resulted in a finding of probable cause by OLBD.

Educational and Promotional Activities

OLBD's activities in the areas of education are varied. They include such activities as the creation of brochures, fact sheets, LSDBE applications, newsletters, checklists of certification requirements, web-site, the "Marketplace" (an annual exhibit event held in the Spring), orientation seminars for companies wishing to learn more about contracting with the District government, and monthly contracting roundtables for LSDBEs and procurement officials. A comprehensive table of these activities appears in the Advancing Subgroup report contained in the Report Appendix.

Certification Administration

The administrative review of the applications submitted under the certification and re-certification process is the responsibility of OLBD. It is the Local Business Opportunity Commission who actually accepts or rejects LSDBE applications. Further, OLBD is the liaison with current and prospective LSDBEs to answer questions and provide guidance in application completion.

Advocacy

Based on Task Force research, the OLBD advocacy functions and activities are not meeting program stakeholder expectations. Other than the education activities mentioned above, the advocacy function is implemented primarily on an informal basis, through other OLBD activities, with limited effort being placed on a coordinated, strategic plan to leverage the input and maximize the outcome. Budgetary constraints inhibit the agency's ability to implement new outreach programs and initiatives that would provide for enhanced advocacy and LSDBE support.

Procurement and Utilization

In addition to OLBD's responsibility for program promotion, advocacy and certification administration, the overriding mandate for OLBD is the responsibility for monitoring agency compliance with the requirements of DC Law 12-268. A number of mechanisms are designed to fulfill this mandate. The descriptions presented below represent the key elements of the

processes as utilized. The degree to which these processes are successfully and consistently implemented varies.

In order to facilitate compliance monitoring, OLBD requests that District agencies submit a series of documents, including an Annual Budget Allocation Letter, an Expendable Procurement Projection Report, an Operating Expenses Checklist, and Quarterly Reports. At the end of each fiscal quarter, the OLBD compiles the quarterly expenditure reports and files them with the Office of the Mayor and the Council of the District of Columbia.

OLBD also reviews and approves Affirmative Action Plans submitted by District agencies for public/private partnerships and for contractors with contracts in excess \$25,000. In addition, through Memoranda of Understanding, OLBD monitors the use of LSDBEs by the District's "economic development project partners." These are entities participating in the District's Industrial Revenue Bond and Tax-Increment Financing (TIF) Programs. These entities execute an MOU pledging their "best efforts" to provide LSDBEs contracting opportunities in an amount equal to 35 percent of the value of the bond proceeds or project costs. OLBD monitors MOUs through review of quarterly reports submitted by project partners.

The other primary parties involved in the process of ensuring agency compliance with LSDBE goals are agency directors and the Office of Contracting and Procurement staff. Because agency directors have limited contracting authority, responsibility for meeting LSDBE goals is shared by OCP. The agency directors and OCP jointly decide the agencies' LSDBE goals and formulate ways to achieve them. In the beginning of the fiscal year, each agency submits an estimate, or forecast, of its goal for the year to OLBD. Agencies are expected to achieve 25% of their goals each quarter, and progress against those goals is monitored quarterly.

2.2 Interrelationships and Interdependencies

As is evident from the above discussion, OLBD's mandate for the LSDBE program requires, among other things, extensive procurement knowledge, practiced communication skills, effective collaboration efforts, and the successful performance of varied other functions. Further, OLBD's activities require a high degree of interdependence and interrelatedness with OLBD's constituents. Exhibit 2.1 summarizes the interrelated and interdependent activities that occur between OLBD and its constituents.

III. FINDINGS

3.0 Introduction

The District of Columbia's Office of Local Business Development has been given an important mandate – to ensure that local, small and disadvantaged business enterprises are full participants in the contracting process which procures goods and services for the District's agencies, using expendable budget dollars. Taken at face value, this may appear to be a numbers issue – monitoring and enforcing the percent participation commitments and reporting requirements mandated by DC Law 12-268 the "Equal Opportunity for Local, Small and Disadvantaged Business Enterprise Act." In fact, it is an enormously intricate and broad-based mandate whose success relies on the efficient and effective management of a complex web of interdependent constituencies supported by extensive cooperation, communication, collaboration, and coordination.

A successful LSDBE program must be founded on the following six "pillars." (See Exhibit 3.1.)

- ◆ Strategic direction, strong leadership, and collective will.
- ◆ Effective structure of functions and systems, including communications mechanisms.
- ◆ Identification and certification of LSDBEs.
- ◆ Widespread utilization of the participant pool.
- ◆ Vigorous advocacy.
- ◆ Enforcement of program mandates.

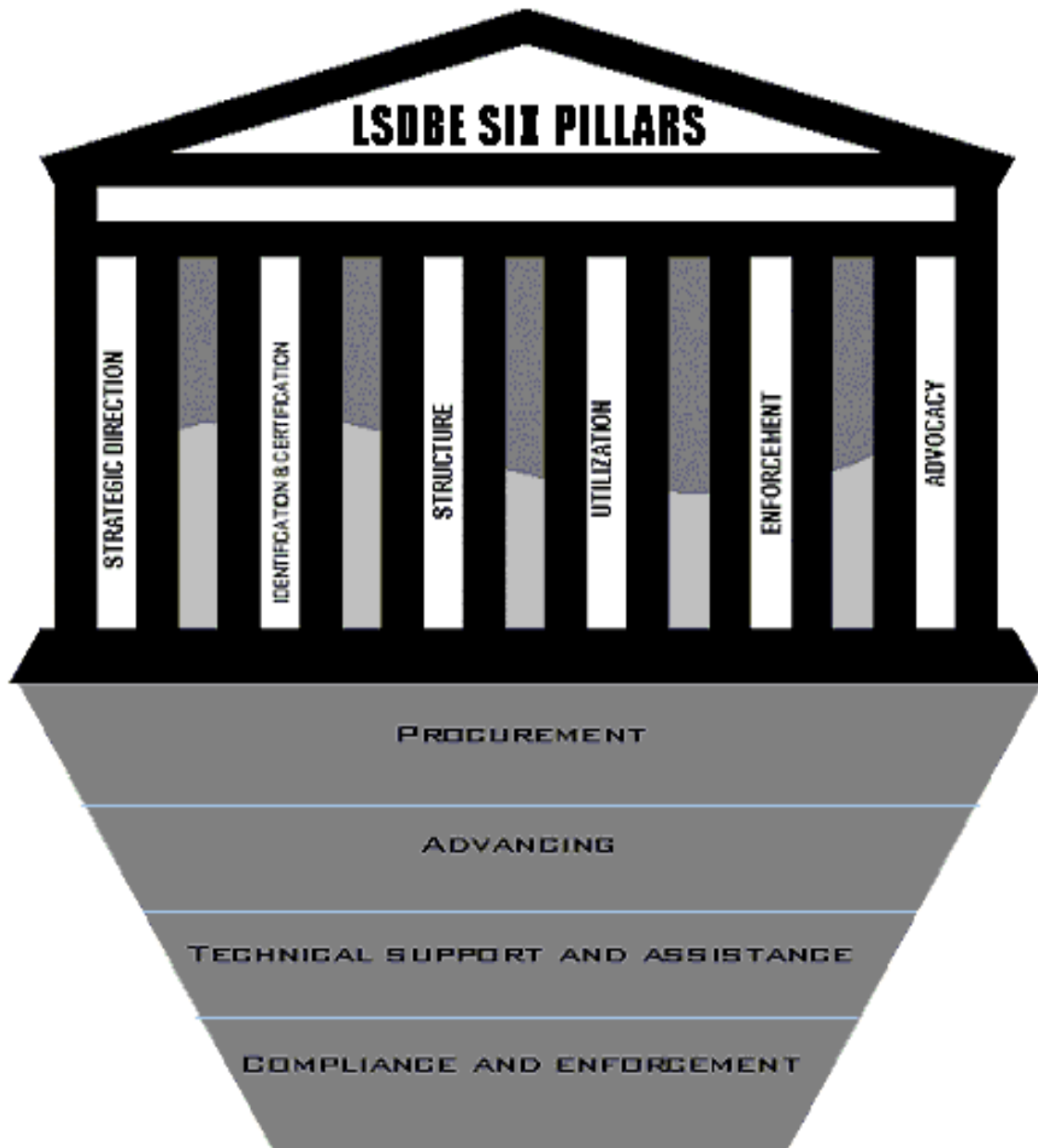
Strategic direction clarifies the focus and sets the priorities for actions taken and decisions made. It also helps to manage expectations and provides a foundation for measuring success. Inherent in this process is the assumption of strong and committed leadership, coupled with the will to succeed. Without these elements, successful implementation cannot be achieved.

The effective structure of functions and systems helps to define the areas where communication, collaboration and cooperation must take place; establishes roles, responsibilities and accountability; identifies the protocol for the sharing of information and specifies the type of information to be gathered; and facilitates compliance with and ease of use of the program components.

No program of this kind can be successful without a well-defined and robust pool of LSDBE participants. Identifying and recruiting LSDBEs into the program is essential for full program utilization. Participation should be viewed not just in terms of numbers of certified companies but also in terms of the mix of qualified participants meeting the needs of the contracting agencies. It is also important to insure that the certification process is well understood by all constituents and allows for rapid turn-around of applications.

Exhibit 3.1

LSDBE Six Pillars



The successful utilization of certified LSDBEs should be the primary objective of the program. This implies that procurement officials have a clear understanding of the program goals and objectives and the benefits that accrue to them from program participation. Further, they must have real-time access to a current listing of LSDBEs as well as the kind of pertinent information about the companies that will assist procurement officers in selecting appropriate product and service providers. Types of information to be provided include, but are not limited to: 1) certification status, 2) contact information, 3) NIGP codes, 4) readiness and ability to perform the work (including general bonding and insurance capabilities), and 5) measurement of past performance.

Additionally, maximum utilization implies having a pool of LSDBEs who have the capacity, technical and business skills, and financial strength to perform the work for which they have been certified. It is further necessary for LSDBEs to have convenient and timely access to information about procurement opportunities. Lastly, timely, accurate and frequent reporting of LSDBE program performance against goals must support the utilization plan. Without this accountability mechanism, firmly in place lack of performance can more easily be excused and/or justified.

Underpinning a successful LSDBE program is the requirement for vigorous advocacy on behalf of both the LSDBEs and the procuring agencies. This advocacy involves strong and collaborative relationships among members of all constituencies, especially between the Office of Contracts and Procurements (OCP) and the Office of Local Business Development (OLBD). It also involves a widespread training and communication effort to insure that contracting officers and LSDBEs understand and appreciate the opportunities and complexities of the program; a strong belief in the mutual benefits that a successful program will provide the participants as well as the community-at-large. And it further involves the means to collect, analyze, and respond to data about the program's effectiveness on an ongoing and timely basis.

Without the last pillar, enforcement of compliance with mandates, the program becomes just a "wish list" of desired outcomes. To be able to provide effective enforcement, it is necessary to clearly define roles, responsibilities and authority. Further, timely, dependable and reliable reporting of performance against stated goals is required. In addition, those being monitored and measured must clearly understand both the benefits and the consequences of their performance. Finally, there must be consistent and equitable application of the enforcement policies and procedures.

For the District's LSDBE program to achieve maximum success, it must include all of these elements in a fully integrated plan. Because of their interrelatedness and interdependency, a weakness in any one of these pillars can significantly hinder the success of the entire program. The Task Force Subgroup findings indicate significant opportunities for enhancement of the District's LSDBE program in all six of these areas. These findings are summarized below. Detailed descriptions can be found in the individual Subgroup reports contained in the Report Appendix. Specific recommendations for improvement are presented in Section 5 of this report.

3.1 Strategic Direction

Developing a clearly stated mission, with related goals and objectives, is the first step in designing and implementing a successful LSDBE program. Through the forums, focus groups; and interviews it became apparent that, although there was a general understanding of the intent of the LSDBE program, there was confusion and lack of understanding around the specific mission and purpose of the program. Further, the respondents felt that the true measures of the program's success - such things as LSDBE utilization in contracting, advocacy efforts, enforcement, and certification - were not well defined. Without clear targets to shoot for, it is difficult to know if the efforts of the various constituents are driving the program to its desired outcomes.

One of the significant findings of this study is that key stakeholders largely misunderstand the program. Many people believe that the current government must do a more effective job of communicating the desired outcomes for the LSDBE program to the community. Many of them do not understand the mission, goals and scope of the program. Clearly, lack of understanding impairs a constituent's ability to successfully use and implement the program. Respondents believe that because there has not been a clear and consistent effort to define and communicate the mission of the LSDBE program, there is uncertainty regarding the level of the District's commitment to the program.

More specifically, the true measure of the success in utilizing LSDBEs in District procurement is not well defined. It is not clear to Task Force respondents if the measure of success is, for example, the number of dollars paid to LSDBEs, or the number of contracts awarded to LSDBEs. Without well-defined measurements, OLBD finds it difficult to articulate LSDBE program success.

Further, lack of clarity and understanding of program goals and objectives has resulted in differing expectations and negative perceptions of 1) the LSDBE program as a whole, 2) many of the LSDBEs that participate in the program, and 3) many District agencies that are required by law to comply with the program. Some agency directors said that too often the program seems to be little more than a set of numbers that must be reached rather than a dynamic, coordinated program to develop and grow LSDBEs into full participants in the contracting process. Such perceptions are one of the factors driving public opinion about the level of LSDBE program success. Negative perceptions make it more difficult to encourage program participation, compliance, and resource allocation.

3.2 Effective Structure of Functions and Systems, Including Communication Mechanisms

The Task Force found that there is a lack of meaningful coordination and information sharing among OLBD, OCP, agency directors, and procurement officers. This inhibits consistent internal communication and program implementation. Further, it found that OLBD staff does not appear to have contract management and procurement technical skills to advocate sufficiently with OCP at the procurement stage on behalf of LSDBEs and, therefore, are likely missing opportunities to provide input into buying decisions.

The Task Force findings also highlight a disconnect between the certification and procurement processes. Although there is one staff person assigned as a liaison between OLBD and OCP, there is no strong program implementation link between the LSDBE program requirements and the actual procurement of goods and services or program administration. Even though the statutory authority exists for OLBD to promote the utilization of LSDBEs, the Task Force believes that the bifurcated relationship between the LSDBE certification process and the actual procurement process contributes to an under-utilization of LSDBEs in the District's procurement supply line. The regulatory or procedural ties that should bind the LSDBE certification process to the procurement process, in order to result in the meaningful utilization of LSDBEs in procuring goods and services by the District government, do not exist.

The Task Force further found that, although mandated with the authority to "review agency procurement plans," the OLBD director was seldom part of that process. Consequently, LSDBEs who rely on OLBD to foster public sector contracting opportunities find that OLBD is frequently not even part of the most basic procurement planning process.

Exacerbating the communication and collaboration process between OLBD and District government agencies is a manual OCP procurement system, multiple yet disparate communication and application technologies, and poorly defined measurement and data collection criteria. As a result, it is almost impossible to determine program performance and compliance and, therefore, difficult to communicate program successes and to enforce program mandates.

An effective LSDBE structure rests on a foundation of communication, collaboration, cooperation, and coordination. Clearly, if those parties who have a demand for goods and services have neither open lines of communication with nor cross-functional understanding of those who hold the supply, there is the potential for a serious breakdown in effective working relationships.

3.3 Identification and Certification of LSDBEs

Task Force findings were mixed on OLBD's performance with application processing. For those respondents who had negative experiences, they commented that the process took too long and that OLBD staffers were not particularly knowledgeable about the program, nor where they helpful. LBOC respondents indicated that applications were often incomplete at the time of submission to LBOC for approval, thus delaying the certification process by at least 30 days until the LBOC reconvened. Others felt that the certification process accounted for too much of OLBD staff time, leaving little time for the performance of other important program activities by OLBD personnel.

Currently, the LSDBE certification process attests only to the LSDBE's compliance with specific size, location, ownership, and ethical criteria. The certification process is not designed to attest to an LSDBE's skill set, business acumen, financial strength, or quality of past performance. There was significant discussion among respondents over the need to have some assurances and/or information about LSDBE contractors' financial wherewithal to acquire performance bonds and insurance, proficiency with both their trade and general business management, and the quality of their overall performance on past contracts. Agency directors, procurement officers and private sector developers agreed that more useful and timely information about LSDBEs' business capabilities and past contract performance should be made available in an electronic database format.

Among the LSDBE program stakeholder groups interviewed, private developers, in particular, expressed concern about the business capacity of some of the certified LSDBEs. These respondents noted that the lack of bonding and insurance capability, and the lack of overall financial strength of LSDBE's have caused problems, either during projects or when attempting to bring an LSDBE into a bid proposal.

Further, agency directors, procurement offices and developers noted that, in addition to a generally small pool of certified LSDBEs (currently approximately 600 out of the 15,000+ small businesses in the District), many of whom were not of sufficient size or quality performance to qualify for a particular contract, there were often no certified LSDBEs in the NIGP codes under which they needed to procure goods and services.

For a robust LSDBE program to exist, it is important to have a full compliment of participants who can perform services and provide goods in accordance with the needs of the procuring agencies. To achieve this, it is necessary to have comprehensive coordination and communication between those bringing participants into the program (OLBD) and those using the services of its participants (OCP and District agencies). Determining the needs of the "buyers" is the starting point. It should then be the function of the LSDBE program office (OLBD) to actively recruit the "sellers" in sufficient number and diversity to enable the procurement officers to meet their program goals and adequately staff their contracts. There is no question that a program of this kind requires a certification process to insure that those entities the program is de-

signed to serve are in fact the only ones who are given the privilege of participation. In order to encourage program participation, it is important for the certification application process to be efficient and effective.

3.4 Widespread Utilization of the Participant Pool

To achieve maximum utilization of LSDBEs in the procurement process and to provide intra-agency advocacy on behalf of the certified companies, it is first necessary for the contracting officers and agency directors to understand not only the regulations of the program but also to know the spirit of the program. Respondents felt that before broader LSDBE program advocacy can occur within the District government, agency directors and senior procurement officials must be given the training needed to serve as advocates. They must also be held accountable to the program's legislative mandate. Agency directors believe that their chief contracting officers understand the vision and commitment of meeting the goals of the LSDBE program. However, they think that they have not had adequate and appropriate training for a full understanding of the program.

It is evident from the Task Force's research that OLBD has not performed an adequate job of educating government stakeholders to assist and support the agency in promoting the LSDBE program or its certified LSDBE businesses. The Task Force believes that the District is poised to capitalize on further nurturing, promoting and leveraging advocacy opportunities for the LSDBE program and its participants in the District government.

In addition to understanding the specific objectives of the program, procurement officers must feel comfortable that the LSDBEs have the wherewithal to perform and compete effectively. Currently, other than through personal knowledge of an LSDBE's past performance, there is no effective way to know or learn of the capacity or the capabilities of any particular LSDBE. The perception among the respondents is that there are not enough certified LSDBEs with the capacity and capabilities to meet their procurement needs. Many of the respondents would like, and expect the LSDBE database to contain some performance evaluation and measurement of the LSDBEs. Some of them say that not weeding out or indicating LSDBEs with recurring performance problems and lack of capacity or capability limitations diminishes the value of the database.

The most common criticism of the program is the lack of assistance, whether financial or educational, that is provided to the LSDBEs to assist with capacity building. Developers, agency directors and agency procurement officers understand that one of the intents of the LSDBE program is to support the development of local, small and/or disadvantaged businesses; but they see no formal efforts being made by OLBD to coordinate access to or directly provide LSDBEs with meaningful training, advisory services or financial resources they need to survive and thrive in the market place.

All of the private developers interviewed by the Task Force expressed concern about the business capacity and capabilities of many of the certified LSDBEs. These business leaders noted

that the lack of bonding capability, the lack of insurance and the overall weak financial strength of LSDBEs present problems when projects are underway and/or when attempting to bring an LSDBE into a bid proposal. Building business capacity entails, among other things:

- ◆ Helping to insure that essential business infrastructure, systems, and processes are in place.
- ◆ The availability of adequate financing.
- ◆ LSDBEs who are seasoned in competitively marketing their goods and services.

LSDBEs specifically identified a need for more training in:

- ◆ The certification process.
- ◆ Ways to identify procurement opportunities within the District.
- ◆ The best means to market their products and services to District procurement officials.
- ◆ Ways to obtain bonding, insurance, financing, and other business development advisory services and training.

The Task Force found that, while there are a number of programs and facilities in the District that provide small business educational and assistance opportunities, there is neither an existing comprehensive inventory of the available programs, a comprehensive strategy on how to use these services, nor the organizational leadership to deliver this help to LSDBEs in a coordinated fashion.

An assessment of the available technical support and business assistance products and services reveals that there are over 15 District government agencies that operate some type of direct assistance program that businesses might want to access. In addition, another eight entities serve small businesses through some type of public/private partnership, and 12 community-based organizations offer direct assistance to small businesses.

But even if the District had a soundly qualified, diverse pool of LSDBEs, the findings indicate that attention should be given to ways of making the procurement system more responsive to the needs and use of LSDBEs. Agency directors and procurement officers who were interviewed specifically noted that aspects of the procurement system work counter to their utilization of LSDBEs and the implementation of the program – that there is always competitive pressure to select the lowest bidder, who may or may not be a certified LSDBE. It was further noted that the system currently appears to provide more incentive to District agencies to select the “safe” vendor rather than to use an unknown, unproven LSDBE.

Lastly, for widespread utilization of LSDBEs, procurement officers must have access to, through an electronically accessible database, reliable, current information on the availability of LSDBEs. Conversely, LSDBEs must have timely access to information about contracting

opportunities. The respondents to the Task Force’s inquiries indicate that in addition to the limited usefulness of the information in OLBD’s LSDBE database, it is not current and that the database was cumbersome to navigate. Conversely, LSDBEs are frustrated with the lack of information about or links to available contracting opportunities posted on OLBD’s web-site.

3.5 Vigorous Advocacy

The Task Force found that key program stakeholders expect a level of program advocacy that is far greater than that which is currently being provided by OLBD. While the agency’s statutory authority provides broad latitude to meet these expectations in a number of ways, a significant gap exists between expectations and service delivery.

One reason given for this shortfall is the limited amount of resources allocated to OLBD to carry out its broad-based mandate. Additionally, findings support the conclusion that OLBD has focused more of its limited resources on its role as LSDBE regulator than on its role as program advocate. The perceptions of prime contractors, LSDBEs, and small business advocacy groups are that a stronger advocacy role is required for a successful LSDBE program.

The Task Force found that one area where improvement in OLBD advocacy could reap significant rewards is in the review of agency procurement plans. During the Task Forces’ interview with the OLBD Director, it was determined that although District law clearly provides OLBD with the authority to review these plans and determine which contracts or portions of them may be set-aside, the Director noted that often the Office was “not part of that process.” Therefore, one of OLBD’s most effective internal advocacy tools – the authority to influence contracts for the set-aside market – is not being used effectively.

Additionally, the Task Force notes that OLBD does not promote its success stories, its “best-in-class” LSDBEs. Given the negative perceptions of both the program’s success and the quality of the certified LSDBEs in the program, celebrating true successes would represent a strong, positive step towards enhanced advocacy. To begin addressing issues related to small business support and approaches to helping small business grow and thrive, the District must look for ways to leverage existing “best-in-class” business services.

The Task Force believes that, given its resource constraints, OLBD can be a more valuable aide to LSDBEs by, in some cases, helping to coordinate, package and promote existing best-in-class services rather than attempting to create new government initiatives. By doing so, OLBD would maximize its executive branch leverage to influence public and private sector program and policy decisions that directly impact its program constituents.

Just as the District must support and promote its public and private sector best-in-class business service providers, OLBD must also identify ways to promote its best-in-class LSDBE businesses. In showcasing LSDBE successes in government contracting, OLBD can begin to positively influence public opinion about both the quality of work provided by LSDBEs and the success of the program as a whole.

A strong LSDBE program requires vigorous and committed advocacy. The role of the advocate is to provide a strong voice for and to be the promoters of the interests of the group for which advocacy is being provided. In the case of the District's LSDBE program, OLBD is in the unique position of being expected both to advocate on behalf of the LSDBEs in front of the procurement community and to advocate on behalf of the program in front of current and prospective certified LSDBEs and agencies. To manage this dual role successfully, resources (time, personnel, money) must be allocated specifically to this task.

One of the opportunities available to a strong advocacy program is the ability to leverage resources by dealing with multiple constituents simultaneously. Rather than divide and conquer, the key is to combine and partner. A well-designed program of coordination and communication, implemented on a regular and consistent basis can provide the "horse power" needed to successfully promote and support both the overall goals and objectives of the LSDBE program and the constituents that the program is designed to serve.

3.6 Quantitative Analysis Highlights

A quantitative analysis of the District's FY 2001 LSDBE program performance was conducted on behalf of the Task Force. A more extensive analysis can be found in Appendix 1. The analysis suggests that in FY 2001, the District government exceeded its 50 percent LSDBE utilization goal. The analysis revealed that the District's total expendable budget was \$403,519,692, of which \$201,851,601 or 50 percent was considered the "eligible goal" for LSDBE utilization. Based on the report findings, the District actually awarded \$376,609,311 or \$174 million more than its FY 2001 goal. The report did not examine other fiscal years for comparative purposes.

With regard to the total agency expenditures to LSDBE firms, the quantitative analysis indicates that a total of 3,060 contracts were awarded to 296 different certified businesses. This represents 46 percent of all eligible certified firms. The table below shows the number and dollar value of contract awards to each certification type:

	No. of Contracts Awarded	Total Contract Value	Certification Type(s)	Percentage Awarded by Type
	66	\$100,143,749	LSDBE	38%
	90	\$40,142,157	LS	15%
	0	\$0	LD	0%
	3	\$770,206	SD	< 1%
	9	\$119,502,126	L	46%
	2	\$365,970	S	< 1%
	0	\$0	D	0%
TOTAL	170*	\$260,924,208		

*The remaining 126 contractors could not be classified by certification type from the data received.

Based on the table above, only firms certified as local businesses received the greatest value of LSDBE contracts (46%), and firms certified as local, small and disadvantaged received the second largest value of contracts awarded at 38 percent. Firms certified as local, small and disadvantaged businesses received 66 contracts or 39 percent of the 170 contracts awarded (see footnote above). Of the 625 firms certified by OLBD, 46 percent or 288 of those firms were awarded a contract from the District government in FY 2001.

With regard to program compliance by District government agencies, the analysis revealed that of the 60 District and independent agencies and commissions examined, 19 agencies failed to meet their FY 2001 LSDBE utilization goal. No determination could be made for 18 agencies due to reporting discrepancies. Among the agencies that reported participation, several submitted reports that show contract dollars that not only exceeded their LSDBE goal or eligible budget, but their entire expendable budget. It is assumed, although not proven with the information provided, that these agencies have included capital, federal, or other dollars when calculating their LSDBE participation.

The District executed 16 Memorandums of Understanding with Industrial Revenue Bond recipients and 12 as Capital Revitalization Corporation approved projects. In all instances, the LSDBE goal was 35 percent. As of July 6, 2002, total bond financing for Industrial Revenue Bond (IRB) agreements was \$9,672,700,000, with a goal of \$156,714,617. As of the same date, the total LSDBE contract awards were \$12,643,115 or 8 percent of the cumulative goal. Given the duration of many IRB projects, however, IRB partners expect to meet their utilization goals. The total development budgets for the 12 CRCAP was \$407,425,550 with the same 35 percent utilization goal. To date, gross LSDBE participation totals \$17,485,250 or 12 percent of the cumulative goal.

3.7 Enforcement of Program Mandates

The Task Force found that there are no comprehensive administrative and program management methodologies in place to ensure effective reporting of procurement data by all agencies of the District government. Nevertheless, OLBD is responsible for enforcing procurement regulations for businesses already holding certification and for reviewing the agency procurement plans in accordance with DC Code. Sec. 2-1205.3 (5), (10), (2001).

The lack of comprehensive management methodologies is due in large part to:

- ◆ The incompatible information systems used by the District's three major procurement process partners, OLBD, OCP, and the Office of the Chief Financial Officer (CFO).
- ◆ The lack of clarity and specificity around key success measures (e.g., should performance and compliance be measured by the amount of contract dollars awarded or the total contract dollars expended).

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- ◆ The absence of data elements specific to the LSDBE program, such as NIGP codes and LSDBE certification, in the various procurement process partners' databases.

As a result, OLBD is unable to create a reliable District-wide report that summarizes LSDBE activity, in a comprehensive yet simplified manner, that compares actual performance against the District's requirement to spend 50% of its contracting dollars with LSDBEs.

Further, without reliable reporting and clear measures of success, OLBD has a limited arsenal from which to draw success stories that can further promote the LSDBE program and work to shift negative perceptions surrounding program compliance, enforcement, and performance.

Finally, the absence of reliable data makes enforcement of program mandates inconsistent at best, and inequitable at worst. Until OLBD can:

- ◆ Clearly establish success measures.
- ◆ Define appropriate roles and responsibilities as they relate to the LSDBE contracting process.
- ◆ Provide adequate training and education for procurement officials and agency personnel.
- ◆ Improve its ability to communicate and collaborate with its contracting partners.
- ◆ Collect and report reliable information.

Its ability to enforce the LSDBE program mandates is limited. Without strong enforcement mechanisms in place, consistently and equitably applied, the LSDBE program will continue to encounter negative perceptions and limited success.

One of the key components of an enforcement system is the ability to collect reliable data on a timely and consistent basis in support of program goals and objectives. In order to track LSDBE program success and make mid-course corrections, it is critical for OLBD to obtain the information it needs to measure actual performance against desired or mandated outcomes. Without this information, the Office stands in a weak position vis-à-vis enforcement of the program's mandates.

IV. BEST PRACTICES

4.0 Introduction

As part of its data collection effort, the Task Force looked at agencies and organizations in other jurisdictions that were tasked to do many of the same things OLBD is required to do in support of the LSDBE program. This research provided an opportunity to test hypotheses and identify potential solutions to some of the issues and opportunities that emerged from the Task Force’s qualitative research.

Often when organizations look outside of themselves for ideas, they have an opportunity to re-validate what they are doing well, and also to generate ideas for new programs, processes, functions, or strategies to expand or enhance functions and activities that they already have in place. A review of best practices can facilitate this process. For its best practices research, the Task Force:

Identified relevant organizations and programs in federal agencies, other municipalities, state government, and private industry.

Researched processes, functions, and practices related to advocacy, organizational placement of certification function, capacity building, and use of technology.

The following sections of the report, presents some of the more compelling practices identified.

4.1 Advocacy

The Federal and Maryland State Governments offer examples of practices, functions, and procedures that the District could adopt to strengthen and expand the manner in which it advocates and promotes local, small, and disadvantaged businesses. These examples include:

- ◆ Maryland and the federal Office of Small and Disadvantaged Business Utilization have “advocates” for local, small, and disadvantaged businesses positioned within governmental agencies
- ◆ Ombudsman to receive complaints and concerns and investigate if necessary on behalf of small business.
- ◆ Research and policy coordination to promote, protect, and strengthen small business.
- ◆ Communication about opportunities, certified vendors, and strategic partners.

Advocates

Because so much of the procurement process occurs outside of OCP and OLBD, an advocate within the agencies would help ensure that LSDBEs have a representative where many of the purchasing decisions are made. Every federal agency with procurement powers is required to

have an Office of Small and Disadvantaged Business Utilization (OSDBU). The goal of OSDBUs is to institutionalize the use of small businesses and to fully integrate them into the federal government's competitive base of contracts. OSDBUs are typically tasked to:

- ◆ Increase contracts and subcontract awards to small businesses.
- ◆ Share information.
- ◆ Identify potential small businesses for use by the agency, its bureaus and prime contractors.
- ◆ Negotiate contract goals with the U.S. SBA in an effort to increase awards to small businesses.
- ◆ Publish an Annual Forecast of Contract Opportunities, listing upcoming procurements.
- ◆ Review procurement requisitions to maximize small business participation.
- ◆ Establish partnerships with federal agencies and customers to obtain feedback and improve services.
- ◆ Create awareness of the benefits of working with small businesses.

In Maryland, each government agency has a minority business enterprise (MBE) officer who acts as a liaison between the small and minority business community and the respective agency. The MBE officer:

- ◆ Provides information on contract opportunities.
- ◆ Identifies resources.
- ◆ Represents the voice of the small and minority business owner(s) to the agency.

A function such as this in each District agency, including independent agencies, could facilitate and augment the work of OLBD and OCP. The person in this role would report to OLBD.

Ombudsman

The SBA Office of the Ombudsman serves as a liaison between small business concerns and federal agencies with regulatory authority. The Office's jurisdiction covers issues involving federal regulatory compliance and enforcement. The Office of the Ombudsman investigates repetitive audits or investigations, excessive fines, penalties, threats, retaliation or other unfair enforcement action taken by a federal agency against a small business entity. An ombudsman typically serves as an objective, third party to resolve sensitive disputes and complaints. An ombudsman program for LSDBEs may provide an objective means to resolve issues between LSDBEs and procurement, OLBD, or agencies. The ombudsman function might be affiliated with OLBD in a manner similar to the Local Business Opportunity Commission.

Research and Policy Coordination

Research and policy coordination are among the functions of the U.S. Small Business Administration's (SBA) Office of Advocacy. The office represents the nation's small businesses within the Federal Government, conducts policy studies, and compiles statistics on small business characteristics and contributions. According to its web-site, the fiscal year 2002 appropriation for the Office of Advocacy was \$8 million and has a staff of 33, as compared to OLBD's budget of \$1million and a staff of 10.

The Office of Advocacy is organized into three units:

- ◆ **The Office of Economic Research** serves as the principal source for small business statistics and analyzes small business in the economy.
- ◆ The Office of Interagency Affairs serves as the voice for small business in the Federal Government with regard to proposed regulations. The office prepares comment letters and testimony on federal proposals that may affect small firms. Among the issues addressed are access to capital, the burdens of regulatory compliance, and tax policies.
- ◆ The Office of Information provides outreach to the small business community. The office also communicates with the White House, Congress, regulators, state policy-makers, industry, and the media.

The Office of Advocacy's policy and research oriented duties include:

- ◆ Examination of the role of small business in the American economy and the contribution small business can make to improve competition, encourage economic mobility, and expand employment opportunities.
- ◆ Assessment of the effectiveness of existing federal subsidy and assistance programs for small business.
- ◆ Measurement of the direct costs and other effects of government regulation on small businesses and to make legislative and non-legislative proposals for eliminating excessive or unnecessary regulations of small businesses.
- ◆ Determination of the impact of the tax structure on small businesses and to make legislative and other proposals to alter the tax structure to enable small businesses to realize their potential for contributing to the improvement of the nation's economic well-being.
- ◆ Studying the ability of financial markets and institutions to meet small business credit needs and to determine the impact of government demands for credit on small businesses.
- ◆ Assessment of the availability of financial resources and to recommend methods for delivery of financial assistance to minority enterprises, including methods for securing equity capital.

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- ◆ Providing business education and technical assistance in complying with federal, state, and local law.
 - ◆ Evaluating the efforts of federal agencies and business and industry to assist minority enterprises.
 - ◆ Recommending policies and to assist in the development and strengthening of minority and other small business enterprises.
 - ◆ Recommending measures to create an environment in which all businesses will have the opportunity to compete and expand to their full potential.
 - ◆ Ascertaining the common reasons, if any, for small business successes and failures.
 - ◆ Determining the desirability of developing a set of rational, objective criteria to be used in defining small business, and to develop such criteria, if appropriate

The policy and research focused activities of the Office of Advocacy are important because they demonstrate a proactive role in assessing the effectiveness of existing programs, evaluating the impact of new policies and regulations, and identifying future opportunities to strengthen and protect small business. Rather than only monitoring federal agencies activities, the office works to collect, generate, and analyze data that will shape policy-makers and industry's understanding and actions around the promotion, development, and strengthening of small business in America.

Communication and Outreach

Effective communication and outreach to local, small, and disadvantaged businesses can lead to a greater understanding of the program and an increase in the number of businesses becoming certified. Communication with and recognition of agencies may also promote goodwill, increase their understanding and appreciation of the LSDBE program, and encourage expanded participation. The Commonwealth of Virginia and Apple Computer's "Supplier Diversity Program" offer examples of communication and outreach activities the District may want to incorporate.

In 1993 Apple instituted a supplier diversity program to ensure that historically underutilized businesses (HUBs) were provided maximum opportunity to do business with the company. To identify HUBs, Apple proactively seeks diverse suppliers through minority business development organizations and participation in trade show activities. Staff in the Supplier Diversity Program review HUB qualifications and refer them to appropriate purchasers for consideration. So rather than simply making purchasing needs known, the supplier diversity program actively matches HUBs with potential opportunities.

The Virginia Department of Minority Business Enterprise (VDMBE), an organization similar to OLBD, certifies small and minority businesses, facilitates access to capital, and provides small business assistance. To advocate for small business, VDMBE:

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- ◆ Electronically circulates its Quarterly Vendor List to more than 500 public and private sector procurement officials.
 - ◆ Promotes the products and services of certified minority businesses to state procurement officials.
 - ◆ Recognizes agency strategic partners who have demonstrated a commitment to enhancing services to the minority and disadvantaged business communities. This is important because it communicates to agency officials that making the effort to use minority and disadvantaged businesses is valued and appreciated.
 - ◆ Communicates VDMBE's successes. The department has hired a media and public relations specialist. To date 27 articles have been published about minority and disadvantaged business enterprise accomplishments.

4.2 Organizational Placement of the Certification Process

One of the Task Force's hypotheses was that "public purpose programs like the LSDBE program (e.g., supplier diversity programs and minority and disadvantaged business programs) are typically aligned with the procurement function, both organizationally and physically." The discussion that follows describes the organizational relationship between procurement and LSDBE-like certification programs in Chicago, Florida, Philadelphia, and Maryland.

In the City of Chicago, the Minority and Women-owned Business Procurement Program promotes contracting opportunities to minority and women-owned business enterprises (M/WBE). This program is located within the Department of Procurement Services in the Division of Contract Monitoring and Certification. This Division certifies M/WBEs as well as administers the City's Equal Employment Opportunity and Affirmative Action requirements. The Contract Monitoring and Certification Division also plans educational outreach programs and workshops for minority and women-owned businesses.

Following a review of operations, the State of Florida moved its Minority Business Advocacy and Assistance Office from the Department of Labor and Employment Security to the Department of Management Services, where the majority of procurement activities take place. The State found the Office of Minority Business Advocacy and Assistance spent most of its time certifying businesses and setting what it called misleading spending goals. State officials believed that moving the office would help procurement agents find and recruit qualified minority businesses.*

In the City of Philadelphia, there is a Minority Business Enterprise Council (MBEC) which certifies minority, women-owned, and disadvantaged business enterprises (M-DBEs, W-DBEs), provides information on contracting opportunities to certified firms and reviews City department requests for proposals and bid specifications to identify requirements, which unduly

*(*Equity in Contracting Plan*, Executive Summary, www.myflorida.com).

restrict participation of these businesses.** According to staff in this office, the MBEC is separate from the Office of Procurement.

In Maryland, the various functions associated with local, small, and disadvantaged business development are distributed across a number of state agencies and organizations. The Department of Transportation Office of Minority Business Enterprises is responsible for certification of minority business enterprises across the State. As mentioned earlier, each agency has a MBE specialist.

Within the Governor's Office are the Office of Minority Affairs, which provides technical and management assistance, and the Governor's Office of Business Advocacy and Small Business Assistance. This Office connects small and minority-owned businesses to appropriate resources and provides information and assistance on issues, such as business permits, licensing, and small business planning.

While the Task Force identified alternative models for organizational placement of the certification process, it thinks alignment of certification with OCP would best serve the goals of the District's LSDBE program and provides LSDBEs with "one-stop-shopping" convenience.

4.3 Capacity Building

A part of the Task Force's charge was to identify ways to develop, strengthen, and retain local, small, and disadvantaged businesses in the District. Three models that the Task Force identified for consideration are:

- ◆ Business incubators – Maryland Technology Development Center
- ◆ One-Stop Capital Shops
- ◆ SBA's ACE-NET

Business Incubation

Business incubation catalyzes the process of starting and growing companies. A proven model, it provides entrepreneurs with the expertise and networks and tools that they need to make their ventures successful. Incubation programs diversify economies, create jobs, and build wealth. Today, there are more than 900 of these programs in the United States. A business incubator is an economic development tool designed to accelerate the growth and success of entrepreneurial companies through an array of business support resources and services. These incubator "graduates" create jobs, revitalize neighborhoods, commercialize critical new technologies, and strengthen local and national economies.

** (Executive Order 1-93, www.phila.gov/pdfs/venorguide.pdf).

Thirty percent of incubator clients typically graduate each year. According to the *Impact of Incubator Investments Study*, 1997, eighty-seven percent of incubator graduates remain in business.

Two principles characterize effective business incubation:

- ◆ The incubator aspires to have a positive impact on its community's economic health by maximizing the success of emerging companies.
- ◆ The incubator itself is a dynamic model of a sustainable, efficient business operation.

Maryland has established one incubator for high-tech companies and plans are in the works for one in both Silver Spring, MD and Arlington, VA to foster micro business growth. The Maryland Technology Development Center (MTDC) is a newly constructed facility, which offers low-cost rental space and a network of technical and business support services to help local and new businesses succeed. The objective of the MTDC is to help young enterprises grow over the critical period of "incubation." Once the business has achieved a momentum of its own and has the ability to survive outside of the incubator, it will graduate into regular commercial and industrial space.

One-Stop Capital Shops

Examples of private sector training initiatives are the One-Stop Capital Shops (OSCS) in Boston, Massachusetts and Atlanta, Georgia. Both entities are organized as non-profit corporations and provide a more comprehensive program for the business community through a network of on-site professional advisers. These advisers include representatives from SCORE, the Small Business Development Center, local banks, U.S. Small Business Administration and the City's Loan Guarantee Program. Services include business management and planning, legal support, and financial planning.

The One-Stop program located in Atlanta's City Hall, provides information on business training programs offered throughout the City and coordinates mentoring programs. Boston's OSCS is located in the Empowerment Zone and is designed to assist local small businesses in establishing and developing viable businesses in the empowerment zone, using the same resources as those offered in Atlanta.

The District's Department of Employment Services and the Howard University Small Business Development Center have teamed up to create a business incubation program in its newly established business resource center. The incubator provides basic office services and equipment, technology support services, meeting space, and assistance in obtaining information on the financing necessary for company growth. HUSBDC staff is available to counsel business owners and others who visit the business resource center. While still in its early stages, this pro-

gram could serve as a launching pad for an expanded business incubator program and a hub for the One-Stop Capital Shop model.

SBA's ACE NET

The SBA has developed an Internet-based program called ACE NET, which offers new options to both small companies looking for investors and investors looking for promising opportunities. The database marries “angel investors” with those seeking equity capital. There is typically a small charge to “angels” and/or to businesses seeking to list in ACE NET databases.

Within the District, there are three ACE NET operators, including Howard University's Washington, DC SBDC Network's system at the School of Business, Economic Development Finance Corporation's (NEDCO/EDFC) located at 1660 L Street, NW and the United States/Mexico Chamber of Commerce's National Office and Mid-Atlantic Chapter located at 1300 Pennsylvania Avenue, NW.

Business incubators, One-Stop Capital Shops, and programs such as ACE NET, are designed to help small, disadvantaged businesses have access to the information, resources, and support critical to their development, growth, and sustenance. While there exists a plethora of business assistance services and providers in the District of Columbia, the City may want to look for ways to centralize access to these services and establish a program similar to the One-Stop Capital Shops as a part of its formal program to support LSDBE.

4.4 Technology

Technology is a key enabler of processes and a proven communication tool, assuming that the intended audience has access to it. The Task Force recognizes that the District may have opportunities to expand the way it uses technology to support the LSDBE program and related procurement activities. To better understand expanded technology opportunities, the Task Force reviewed the web-sites of comparable organizations in neighboring jurisdictions and studied Metropolitan Washington Airport Authority's (MWAA) Project E-Lert and SBA's Pro-Net.

Comparable Web-sites

Metropolitan Washington Airport Authority's (MWAA) Project E-Lert is a weekly e-mail based publication alerting registered businesses to the latest information regarding contracting opportunities with the Airport Authority. Certification with MWAA is not required to receive these notifications. Consequently, as other local, small, or disadvantaged organizations learn of upcoming opportunities, they might be more inclined to become certified or participate in OLBD programs.

SBA's Pro-Net is a search engine for contracting officers, a marketing tool for small firms and a link to procurement opportunities and information. Pro-Net can be searched by Standard Industrial Codes (SIC), key words, location, qualifications, ownership race and gender, business

type and other factors. Users are given pass codes to access SBA files with information on participating firms. Certified registered companies have the ability to link their business web pages, as marketing tools. The system is also linked to FedBizOps (FBO) that contains most of the contracting opportunities in the Federal Government.

The adoption, by the Office of Contracting and Procurement, of the Project E-Lert system would mitigate the notification issues inherent in a decentralized procurement system. Each agency's contracting officer would be required to download current contracting opportunities to one site. This one-stop access might be available to certified businesses only.

As the table below indicates, OLBD's web-site includes many of the items found on the web-sites for comparable organizations in neighboring jurisdictions. Nonetheless, the Task Force's research provides some new ideas for functionality to be incorporated into the OLBD site.

Feature	DC	Maryland	Baltimore	Virginia
Mission Statement	X	X	X	X
Goals/Objectives	X	X	X	
Searchable database of certified businesses	X	X	X	X
Application forms	X	X	X	X
Online certification				
RFPs/Procurement Opportunities			X	X
Announcements of Awards			X	
Feedback opportunity	X	X	X	X

- ◆ The best practices research suggests that there are effective practices, programs and functions being applied in other jurisdictions and organizations that, if appropriately applied in the District, could augment the effectiveness and efficiency of the District's LSDBE program. Specific elements for consideration are contained in the recommendations in the next section. Additionally, the following suggestion should be taken into consideration: institute an ombudsman to act as an intermediary between LSDBEs, agencies, and procurement in resolving disputes and concerns.
- ◆ Use technology to communicate LSDBE capacity, successes, and qualifications. Provide a one-stop electronic repository of information and data required to participate in the program. For example, on the OLBD web-site provide links to a myriad of small business development programs and services and more direct access to relevant procurement information.

Incorporating these practices into the LSDBE program may help the District address some of the findings the Task Force has outlined.

V. RECOMMENDATIONS

5.0 Introduction

Supporting local, small, and disadvantaged businesses makes good business sense. They contribute to the tax-base, expand employment opportunities, invest in the District, and generate needed products and services. To help the District strengthen its LSDBE program, the Task Force has used feedback from stakeholders, the review of available quantitative data, and the lessons learned from the best practices research to develop a set of recommendations designed to move the District's program to the next level of effectiveness.

The recommendations are organized around six foundational pillars (see Exhibit 3.1) that support the LSDBE program. Strengthening and fortifying the foundation of the program is essential if the District is to have a thriving small business community integrated into the economic fabric of the City. The recommendations are designed to address the primary issues and opportunities the Task Force identified, such as:

- ◆ More effective communication of program success.
- ◆ Clarification of program goals and objectives among government officials and stakeholders.
- ◆ Increased technical assistance or access to it.
- ◆ Perceptions about the capabilities of LSDBEs.
- ◆ Access to capital.
- ◆ Improved customer service.
- ◆ Inadequate resources to support program objectives.
- ◆ Weak enforcement activities.
- ◆ Difficult to access management information data.
- ◆ Limited promotion of the program to potential LSDBEs and agency personnel.

Exhibit 5.1 summarizes the recommendations by pillar and Subgroup.

Exhibit 5.1

Summary of Recommendations by Pillar and Subgroup

	Advancing	Procurement	Technical Assistance	Compliance & Enforcement
Strategic direction <ul style="list-style-type: none"> Develop a tactical plan to implement strategy to meet goal Clarify program intent Agree to performance measures 	X	X	X	X
Structure <ul style="list-style-type: none"> Certification moves to OCP Identify LSDBE/OLBD reporting requirements for inclusion in new procurement system Increase interactivity of OLBD web-site; provide more coordination/integration with procurement information Automate procurement process 	X	X	X	X
Identification and certification <ul style="list-style-type: none"> Expand pool of certified LSDBEs Identify LSDBEs to fill gaps where there are less than 2 in an NIGP Expedite certification via agreements with US SBA and National Minority Supplier Development Council Transfer certification process to OCP 	X	X		
Utilization <ul style="list-style-type: none"> Conduct a spend analysis Further study issues around securing appropriate bonding Establish capabilities assessment program Serve as clearinghouse for information about business assistance and technical assistance Contract with providers to deliver technical assistance and business skills training to LSDBEs Create an incubator for construction firms Conduct a joint Office of Banking and Financial Institutions' and OLBD evaluation of existing small business lending programs (micro and others) 	X	X	X	
Enforcement <ul style="list-style-type: none"> Contract out compliance monitoring Develop stronger contract language Establish enforceable penalties for failure to meet LSDBE contracting goals 		X		X
Advocacy <ul style="list-style-type: none"> Establish an agency leadership recognition program Identify senior-level LSDBE officer in each of the Deputy Mayor clusters Use Mgt. Supervisory Services program to educate key govt. officials Add 4 FTE and \$600K Conduct annual hearing to collect LSDBE feedback Revise eligibility standards Develop a strategic communication plan 	X	X	X	X

5.1 Strategic Direction

To address misperceptions of the program within and outside of the District government and to clarify objectives and foster greater accountability, public and private sector leaders should convene to articulate and revalidate program objectives and develop program measures. This is important so that government officials and stakeholders know what is expected of them. The success of the program depends on a demonstrated commitment by leaders inside and outside government. With consensus achieved around the desired program outcomes, the creation of a tactical plan with clearly defined goals and objectives will be key. This roadmap will serve as the guide to capitalizing on the tremendous opportunities to further advance the District's LSDBE program.

5.2 Structure, Functions, Systems, and Communication Mechanisms

The Task Force recommends that:

- ◆ Contract administration, and compliance be transferred from OLBD to OCP to incorporate LSDBEs directly into procurement supply chain.
- ◆ OCP reengineers its processes and continues with its plans to implement an integrated, automated system.
- ◆ OCP, OLBD, and LBOC work together to conduct a requirements analysis of the information needed from the new procurement system so that the new system is able to produce required reports and data.
- ◆ LSDBE specialists be deployed within each agency to facilitate communication and promote the program.
- ◆ OLBD's staffing be increased by four FTEs in order for the office to better meet its mission.

These factors provide the infrastructure to deliver the program. The Task Force believes that the current organizational placement of the certification function makes the program cumbersome for LSDBEs. The members also think that contract administration and compliance should be aligned with procurement. The existing technology does not facilitate exchange of information among agencies and limits the usefulness of management information and reporting data.

5.3 Identification and Certification

The Task Force recommends:

- ◆ The use of other established certifying organizations (e.g., U.S. SBA, NMSDC) and the development of Memorandum of Understanding with those organizations to expedite LSDBE certifications for District based SBA 8 (a) and Regional Maryland DC Minority Supplier Development Council certified businesses in certain program categories
- ◆ Increase revenue ceiling from \$23 million to \$35 million for small local businesses and require three consecutive years of earning at this level before graduation.
- ◆ Assess the District's current spending patterns to understand the types of firms needed.
- ◆ Move the certification process from OLBD to OCP.

The viability of the program hinges to some extent on there being an adequate pool of certified LSDBEs. Currently only 600 of a possible 15,217 LSDBEs are certified. Some procurements are not classified as set-asides because there is an insufficient number of certified LSDBEs to compete for a solicitation.

5.4 Utilization

The Task Force recommends that:

- ◆ OLBD create a clearinghouse of information about services available to LSDBEs.
- ◆ OLBD contract with an organization or consortium of business training providers to deliver business assistance and technical support to certified LSDBEs and LSDBE applicants.
- ◆ OLBD, LBOC, and OCP create an LSDBE capabilities assessment program to determine business readiness for new applicants and, where warranted, refer applicants for business training prior to award of full certification.
- ◆ The District reconsider plans to create a business resource center within OLBD and concentrate resources on expanding the District's Department of Employment Services and Howard University's Small Business Development Center (HUSBDC) program to model a One-Stop Capital Shop.
- ◆ The District expand the existing DOES and HUSBDC business incubator program to incorporate an incubator pilot project in a specific growth industry, funded with public and private resources. The Subgroup recommends creating the pilot program for small construction firms.

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- ◆ OLBD provide information about how to obtain financing, how to prepare firms to attract capital, what sources of capital exist and what are the various products, all through promotion and education and coordination of external service providers.
 - ◆ The District should promote the Department of Banking and Financial Institutions' (DBFI) efforts to continue partnering with financial institutions to ensure community reinvestment, community development, and to promote more lending opportunities for DC businesses.
 - ◆ The District establish a two-tier local business opportunity program that distinguishes large local businesses from small local businesses.
 - ◆ The District set-aside 50 percent of agency expendable budgets for small local businesses (Tier 2).
 - ◆ The District establish a formal early warning scan of upcoming procurement activities to allow LSDBEs to be identified and where non-certified LSDBEs exist, fast track the certification process.

Utilization is about more than how many LSDBEs received contracts or the dollar value of the contracts. It also is about having a pool of LSDBEs ready to be used and having enough LSDBEs in each NIGP category. LSDBEs cannot be used if they do not know what opportunities are available for pursuit. Procurement officers cannot award, promote and expand the use of LSDBEs if they do not have an accurate list of certified and qualified LSDBEs.

5.5 Enforcement

The Task Force recommends that the District:

- ◆ Include a liquidated damages provision, if permitted, in all future Industrial Revenue Bond contracts and private sector MOUs for failure to meet LSDBE goal.
- ◆ Include stronger LSDBE compliance language in all RFPs/RFQs.
- ◆ Contract out for private sector compliance monitoring and reporting.
- ◆ Assess management reporting information requirements and ensure new procurement system can produce required reports.
- ◆ Establish a vendor-tracking performance database for all vendors doing business with the District of Columbia.
- ◆ Work with OCP to identify requirements, a fair process, and evaluate existing software tools (the new OCP system may have some functionality related to tracking vendor performance).

New levels of accountability must be established if the program is to be taken seriously. What happens if the goals of the Act are not met? What individuals and organizations are responsible for the successful utilization of LSDBEs? What are the implications for prime contractors

that fail to utilize LSDBEs as subcontractors? What are the implications for LSDBEs that fail to perform effectively? At every level there must be consequences. The LSDBE program needs greater enforcement of requirements on three fronts in the performance of work: 1) agencies, 2) prime contractors, and 3) LSDBEs. Because much of the data required to track performance, utilization, and spending is not available, and “back-end” contract administration may be lacking, some private sector contractors may feel comfortable not complying with all requirements, in particular if there are limited consequences to non-compliance.

5.6 Advocacy

The Task Force Recommends that the District:

- ◆ Establish an annual leadership recognition program to honor agency leadership in LSDBE contracting and highlight LSDBE successes. Involve representatives of the public and private sectors in the selection process.
- ◆ Include a component on LSDBE in the Management Supervisory Services program to educate and train key government officials about the program.
- ◆ Identify a senior-level LSDBE officer with sign-off authority over all agency solicitations of \$75,000 or more for each of the three Deputy Mayor clusters of agencies. To minimize the burden on the officer and staff and not slow the procurement process, the LSDBE officer should conduct a retrospective quarterly review of spending. If LSDBE goals were not met, then corrective action would be required.
- ◆ Amend current law to expand OLBD’S advocacy role. Fund advocacy function at four FTEs and an additional budget appropriation of approximately \$600,000.
- ◆ Convene an annual public hearing to solicit comments and suggestions from LSDBEs and review agencies LSDBE utilization reports.
- ◆ Provide an e-mail notification system of small purchase notices and procurement alerts for all government solicitations. Link the OLBD web-site to that of OCP and agencies with independent buying authority.

The LSDBE program must be integrated into the mainstream procurement system. Contracting officers, agency heads and prime contractors’ all must understand that there are significant benefits to the District’s economic development plans when a viable LSDBE program exists. There must be consistent advocacy to ensure that the program is understood and executed. This includes addressing misperceptions about the capabilities of LSDBEs, communicating the benefits of the program, promoting success stories and identifying best practices that can be imported to the District. There must be champions throughout the District that are prepared to speak of the importance of an LSDBE program, and where authorized ensure that LSDBE utilization goals are met or exceeded.

5.7 Next Steps

To maintain the momentum the Task Force has generated, City leaders must act quickly to move forward with the proposed recommendations. The suggested tactical plan should provide an integrated roadmap that specifies timeframes for completion and the parties responsible for given activities. The Task Force suggests that the Mayor convene a meeting of key agency managers, representatives of the Mayor's policy office, City Councilmembers or their designees, and at a minimum the Task Force's Subgroup leaders. This group should work to prioritize the recommendations as an immediate next step and begin developing legislative and policy implementation drafts. The ultimate demonstration of commitment is action.